

ITC

Refer to important disclosures at the end of this report

More transparent, agile and future-ready

ITC in its analyst meet highlighted its growth initiatives across divisions and is hopeful of delivering double-digit growth ahead. The company does not expect a major change in cigarette taxation and continues to target long-term improvement in FMCG margins, though it could be challenging in the near term due to high inflationary pressures. Management seems open to acquisitions in FMCG/IT and exploring unlocking potential at an opportune time, which could be a positive catalyst. Maintain Buy with a TP of Rs270.

Key takeaways from analyst meet:

- In cigarettes, management plans to maximize cigarette potential within the tobacco basket, given that cigarette consumption stands at just 8% of tobacco consumed.
- The cigarette portfolio is future-ready with in-house technology benefits and the launch of more variants/formats. The portfolio offerings are up 2x in the last eight years, offering a wide portfolio at multiple price points. New launches contribute 11% of overall volumes.
- It highlighted better recovery trends in cigarettes after the second Covid-19 wave, and has gained 100bps in market share. Commentary indicated improvement in mix, with stability in the tax regime and constant innovations, complemented by strong last-mile execution.
- In FMCG, management plans to fortify the core and leverage adjacencies. Core brands have displayed strong, ahead-of-industry growth in the last 10 years. Aashirvaad Atta grew 5x with an 18% CAGR, cream biscuits saw a 16% CAGR, the Bingo bridges segment reported a 25% CAGR, and Yippe Noodles posted a 42% CAGR.
- In personal care, ITC plans to focus on future-facing categories and drive premiumization with innovations driving affordability in premium categories. Savlon and Nimyle have seen strong success after the acquisition (up 14x and 5x, respectively).
- ITC expects margin improvement to continue over the longer term and expects industry-leading margins across categories, led by manufacturing cost efficiencies, mix improvement and accretive acquisitions. High inflationary pressures are, however, likely to impact the margin trajectory in the near term.
- The total reach has gone up 1.2x (+6.6mn outlets), with the direct reach going up 1.4x (+2.5mn outlets) and the stockist network growing by 6x in the last five years. The e-commerce channel contributes 7% of overall sales (14% contribution in personal care).
- In hotel business segment is yet to recover (40-50% of pre-Covid levels), while the leisure segment is seeing stronger growth. The focus is on moving toward an asset-light model by increasing managed rooms from 25% to 45% in five years.
- Management sees tremendous potential in ITC Infotech and showed interest in exploring inorganic opportunities and a separate listing at an appropriate time.
- In the agri business, ITC MAARS will continue to see more investment, supporting the e-Choupal initiative and creating a robust digital eco-system to deliver customized solutions to farmers.

Please see our sector model portfolio (Emkay Alpha Portfolio): [Consumer Goods & Retail \(Page 7\)](#)

Financial Snapshot (Standalone)

(Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Revenue	4,56,197	4,54,851	5,01,217	5,69,641	6,24,745
EBITDA	1,79,043	1,55,225	1,79,922	2,10,336	2,31,544
EBITDA Margin (%)	39.2	34.1	35.9	36.9	37.1
APAT	1,52,682	1,30,316	1,43,061	1,67,517	1,85,194
EPS (Rs)	12.4	10.6	11.6	13.6	15.1
EPS (% chg)	22.2	(14.7)	9.8	17.1	10.6
ROE (%)	25.0	21.2	24.1	27.6	29.5
P/E (x)	18.4	21.6	19.7	16.8	15.2
EV/EBITDA (x)	14.4	17.0	14.6	12.4	11.2
P/BV (x)	4.4	4.8	4.7	4.6	4.4

Source: Company, Emkay Research

CMP

Rs 229

as of (December 15, 2021)

Rating

BUY (■)

Target Price

Rs 270 (■)

12 months

Upside

18.1 %

Change in Estimates

EPS Chg FY22E/FY23E (%)	-/-
Target Price change (%)	-
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus

EPS Estimates		
	FY22E	FY23E
Emkay	11.6	13.6
Consensus	12.4	13.9
Mean Consensus TP (12M)	Rs 273	

Stock Details

Bloomberg Code	ITC IN
Face Value (Rs)	1
Shares outstanding (mn)	12,323
52 Week H/L	265 / 197
M Cap (Rs bn/USD bn)	2,817 / 37.13
Daily Avg Volume (nos.)	2,99,15,690
Daily Avg Turnover (US\$ mn)	93.1

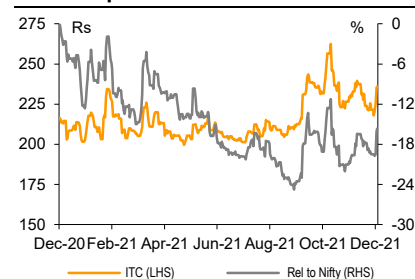
Shareholding Pattern Sep '21

Promoters	-%
FIIIs	10.8%
DIIIs	43.7%
Public and Others	45.5%

Price Performance

(%)	1M	3M	6M	12M
Absolute	(2)	6	10	6
Rel. to Nifty	3	6	1	(17)

Relative price chart



Source: Bloomberg

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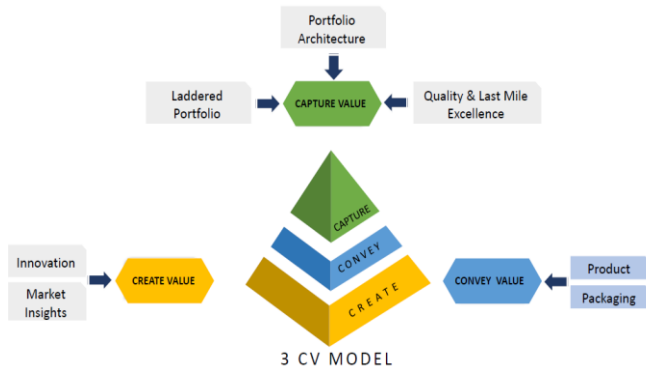
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Story in Charts

Exhibit 1: Cigarettes growth strategy



Source: Company

Exhibit 2: Wide portfolio laddering across price points

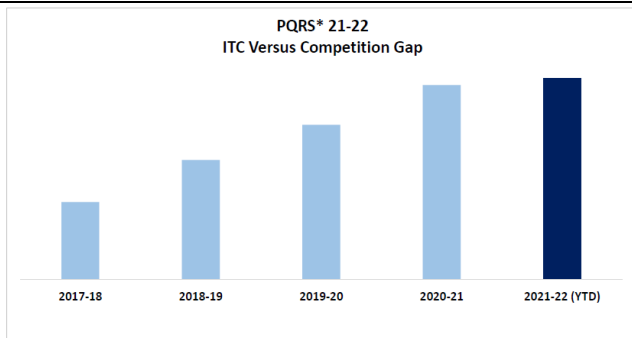
Strong & Vibrant Portfolio : Leading Brand in Every Market Segment

MRP / Pack of 10s

Insignia Classic Blue Leaf					
50+ Brands	Rs.150 & Above	Classic (9 Offers)	Gold Flake (8 offers)	India Kings (2 Offers)	B&H 555 (3 Offers)
	Rs.110 – Rs.140	Gold Flake (3 Offers)	Classic (2 Offers)	American Club (5 Offers)	Wills Flake (3 Offers)
100+ Innovative launches in 5 years	Rs.70 – Rs.100	Gold Flake (10 Offers)	Wills (3 Offers)	Flake Scissors (5 Offers)	Player's (2 Offers) Capstan Bristol (4 Offers)
	Rs.40 – Rs.60	Gold Flake (11 Offers)	Flake (11 Offers)	Capstan (4 Offers)	Wave (5 Offers)
		Berkeley (2 Offers)	Royal (4 Offers)	Duke (2 Offers)	Navy Cut (5 Offers) Silk Cut (4 Offers)

Source: Company

Exhibit 3: Cigarettes market standing has improved



Source: Company

Exhibit 4: Leveraging cross category competencies



Source: Company

Exhibit 5: Focus on future-facing categories in Personal care

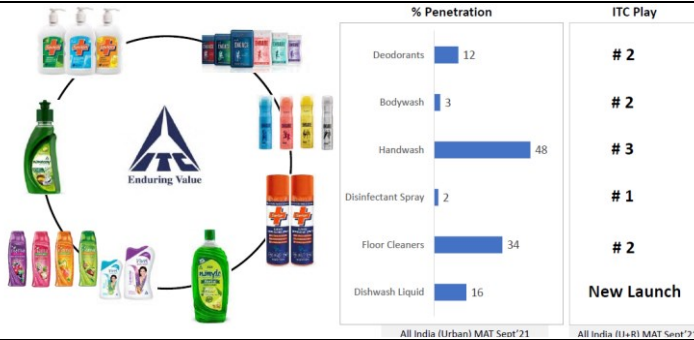
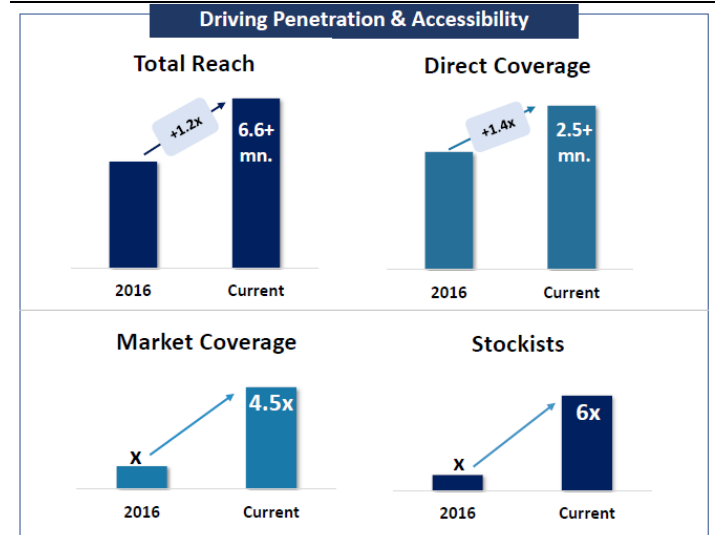
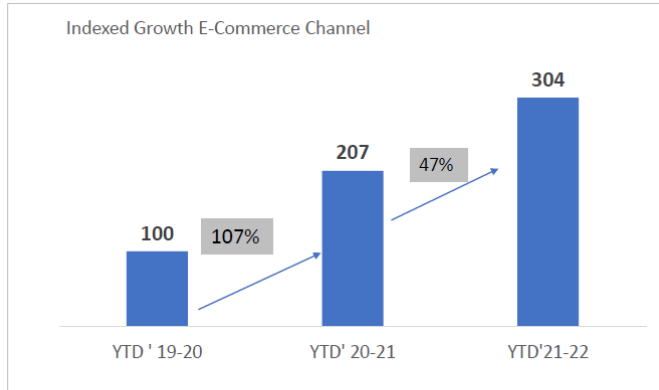


Exhibit 6: Steady reach expansion over the years



Source: Company

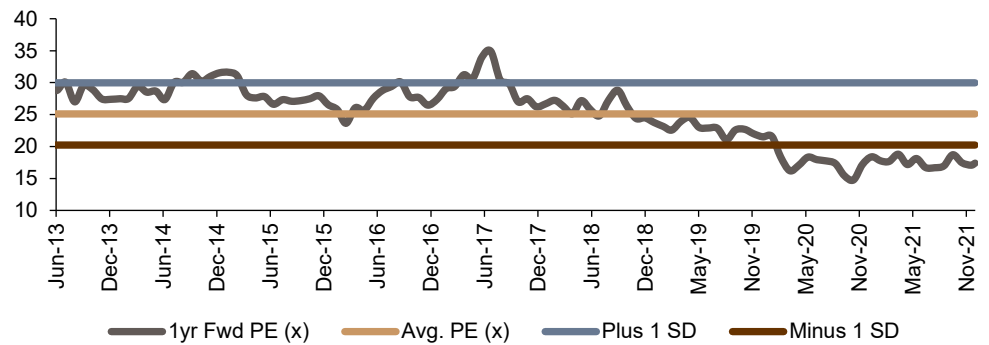
Exhibit 7: Strong trends in FMCG ecommerce contribution

E-Commerce Channel salience is 7%
For Personal Care Categories is 14%

Source: Company

Exhibit 8: Agribusiness – ways to leverage and monetize

Source: Company \

Exhibit 9: 1-yr forward PE band

Source: Company, Emkay Research

Exhibit 10: Relative valuation

	Price (Rs)	Mcap (Rs bn)	Reco	Target Price (Rs)	EPS (Rs)			P/E (x)			EV / EBITDA (x)		
					FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Asian Paints	3,298	2,984	Hold	2,800	29.6	42.3	53.5	111.4	78.0	61.6	66.4	48.4	38.8
Berger Paints	757	709	Hold	830	9.4	12.2	14.4	80.9	62.0	52.5	48.9	38.3	32.5
Britannia	3,580	856	Buy	4,050	66.0	80.5	92.9	54.2	44.5	38.5	38.5	32.3	28.3
Colgate	1,459	394	Buy	1,765	38.0	41.7	46.6	38.4	35.0	31.3	25.2	23.0	20.7
Dabur	579	1,027	Hold	600	10.4	12.0	13.7	55.5	48.5	42.2	43.3	37.6	32.7
Emami	528	244	Buy	600	16.2	18.2	20.5	32.5	29.0	25.7	25.1	22.2	19.6
GCPL	931	934	Hold	920	17.7	20.8	23.7	52.6	44.8	39.3	36.5	31.6	27.6
HUL	2,318	5,507	Hold	2,700	37.5	43.7	50.1	61.8	53.0	46.3	42.8	36.7	32.1
ITC	229	2,731	Buy	270	11.6	13.6	15.1	19.7	16.8	15.2	14.1	12.0	10.8
Marico	515	687	Buy	640	10.3	11.9	13.9	49.8	43.3	37.1	37.6	32.7	28.2
Nestle	19,239	1,863	Sell	16,500	242.0	286.3	335.0	79.5	67.2	57.4	54.7	46.7	40.2
Pidilite	2,389	1,122	Sell	2,200	26.5	32.9	38.1	90.2	72.6	62.7	55.0	44.5	38.3
Radico Khaitan	1,071	144	Buy	1,170	22.6	29.0	34.9	47.3	36.9	30.7	31.2	25.0	20.9
United Breweries	1,592	400	Buy	1,900	17.5	30.9	36.0	90.9	51.6	44.2	44.7	28.6	24.6
United Spirits	926	650	Buy	1,015	12.2	17.1	19.9	75.8	54.2	46.6	45.2	34.7	29.6

Source: Company, Emkay Research

Key Financials (Standalone)**Income Statement**

Y/E Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Revenue	4,56,197	4,54,851	5,01,217	5,69,641	6,24,745
Expenditure	2,77,155	2,99,627	3,21,295	3,59,305	3,93,201
EBITDA	1,79,043	1,55,225	1,79,922	2,10,336	2,31,544
Depreciation	15,633	15,618	16,231	17,100	17,934
EBIT	1,63,410	1,39,606	1,63,691	1,93,237	2,13,610
Other Income	30,137	32,510	27,987	31,136	34,396
Interest expenses	557	475	420	420	420
PBT	1,92,989	1,71,642	1,91,257	2,23,953	2,47,586
Tax	40,308	41,325	48,197	56,436	62,392
Extraordinary Items	(1,321)	0	0	0	0
Minority Int./Income from Assoc.	0	0	0	0	0
Reported Net Income	1,51,361	1,30,316	1,43,061	1,67,517	1,85,194
Adjusted PAT	1,52,682	1,30,316	1,43,061	1,67,517	1,85,194

Balance Sheet

Y/E Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Equity share capital	12,292	12,309	12,309	12,309	12,309
Reserves & surplus	6,27,999	5,77,737	5,85,410	6,05,230	6,24,266
Net worth	6,40,291	5,90,046	5,97,718	6,17,539	6,36,575
Minority Interest	0	0	0	0	0
Loan Funds	56	53	0	0	0
Net deferred tax liability	17,544	19,448	19,448	19,448	19,448
Total Liabilities	6,57,891	6,09,547	6,17,166	6,36,987	6,56,023
Net block	1,94,520	2,10,714	2,12,247	2,12,801	2,12,520
Investment	3,10,160	2,73,737	2,73,737	2,73,737	2,73,737
Current Assets	2,19,872	1,98,020	2,09,044	2,43,291	2,74,793
Cash & bank balance	68,433	40,015	44,186	59,730	73,363
Other Current Assets	28,926	29,645	32,118	35,747	39,336
Current liabilities & Provision	94,462	1,06,259	1,11,196	1,26,175	1,38,361
Net current assets	1,25,410	91,761	97,848	1,17,115	1,36,432
Misc. exp	0	0	0	0	0
Total Assets	6,57,892	6,09,547	6,17,166	6,36,987	6,56,023

Cash Flow

Y/E Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
PBT (Ex-Other income) (NI+Dep)	1,62,853	1,39,132	1,63,271	1,92,817	2,13,190
Other Non-Cash items	0	0	0	0	0
Chg in working cap	17,799	7,135	(1,916)	(3,723)	(5,684)
Operating Cashflow	1,85,349	1,53,545	1,57,796	1,81,313	1,97,864
Capital expenditure	(19,077)	(37,345)	(17,764)	(17,653)	(17,653)
Free Cash Flow	1,66,272	1,16,200	1,40,032	1,63,660	1,80,211
Investments	(44,380)	36,423	0	0	0
Other Investing Cash Flow	(30,137)	(26,738)	(27,987)	(31,136)	(34,396)
Investing Cashflow	(63,457)	4,850	(17,764)	(17,653)	(17,653)
Equity Capital Raised	33	17	0	0	0
Loans Taken / (Repaid)	(23)	(3)	(53)	0	0
Dividend paid (incl tax)	(84,222)	(1,86,433)	(1,35,388)	(1,47,696)	(1,66,158)
Other Financing Cash Flow	(6,378)	82	0	0	0
Financing Cashflow	(91,147)	(1,86,812)	(1,35,861)	(1,48,116)	(1,66,578)
Net chg in cash	30,745	(28,418)	4,171	15,544	13,633
Opening cash position	37,687	68,433	40,015	44,186	59,730
Closing cash position	68,433	40,015	44,186	59,730	73,363

Source: Company, Emkay Research

Key Ratios

Profitability (%)	FY20	FY21	FY22E	FY23E	FY24E
EBITDA Margin	39.2	34.1	35.9	36.9	37.1
EBIT Margin	35.8	30.7	32.7	33.9	34.2
Effective Tax Rate	20.9	24.1	25.2	25.2	25.2
Net Margin	33.5	28.7	28.5	29.4	29.6
ROCE	30.7	27.2	31.3	35.8	38.4
ROE	25.0	21.2	24.1	27.6	29.5
RoIC	63.2	54.3	62.0	72.1	78.3

Per Share Data (Rs)	FY20	FY21	FY22E	FY23E	FY24E
EPS	12.4	10.6	11.6	13.6	15.1
CEPS	13.7	11.9	12.9	15.0	16.5
BVPS	52.1	48.0	48.6	50.2	51.7
DPS	5.7	15.2	11.0	12.0	13.5

Valuations (x)	FY20	FY21	FY22E	FY23E	FY24E
PER	18.4	21.6	19.7	16.8	15.2
P/CEPS	17.4	20.1	18.4	15.9	14.4
P/BV	4.4	4.8	4.7	4.6	4.4
EV / Sales	5.7	5.8	5.3	4.6	4.2
EV / EBITDA	14.4	17.0	14.6	12.4	11.2
Dividend Yield (%)	2.5	6.6	4.8	5.3	5.9

Gearing Ratio (x)	FY20	FY21	FY22E	FY23E	FY24E
Net Debt/ Equity	(0.4)	(0.3)	(0.3)	(0.3)	(0.3)
Net Debt/EBIDTA	(1.3)	(1.2)	(1.0)	(1.0)	(0.9)
Working Cap Cycle (days)	45.6	41.5	39.1	36.8	36.8

Growth (%)	FY20	FY21	FY22E	FY23E	FY24E
Revenue	1.4	(0.3)	10.2	13.7	9.7
EBITDA	3.5	(13.3)	15.9	16.9	10.1
EBIT	2.2	(14.6)	17.3	18.0	10.5
PAT	21.4	(13.9)	9.8	17.1	10.6

Quarterly (Rs mn)	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22
Revenue	1,13,101	1,17,874	1,32,947	1,22,171	1,27,310
EBITDA	40,882	42,814	44,730	39,922	46,150
EBITDA Margin (%)	36.1	36.3	33.6	32.7	36.3
PAT	32,531	36,629	37,484	30,135	36,972
EPS (Rs)	2.6	3.0	3.0	2.4	3.0

Source: Company, Emkay Research

Shareholding Pattern (%)	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21
Promoters	-	-	-	-	-
FII	12.9	13.3	12.8	11.7	10.8
DII	43.5	42.9	42.5	42.4	43.7
Public and Others	43.6	43.8	44.8	45.9	45.5

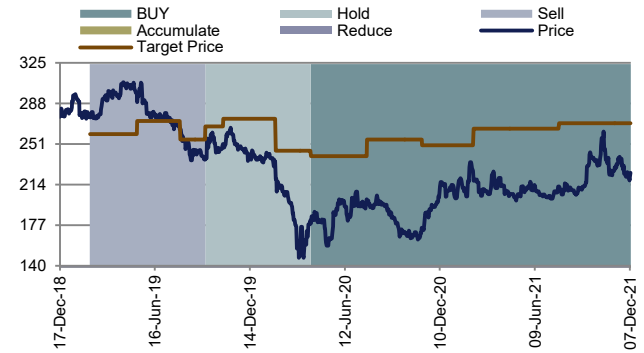
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
28-Oct-21	225	270	12m	Buy	Ashit Desai
25-Jul-21	212	270	12m	Buy	Ashit Desai
02-Jun-21	209	265	12m	Buy	Ashit Desai
12-Feb-21	217	265	12m	Buy	Ashit Desai
06-Nov-20	174	250	12m	Buy	Ashit Desai
25-Jul-20	200	255	12m	Buy	Ashit Desai
24-Jul-20	200	255	12m	Buy	Ashit Desai
28-Jun-20	195	240	12m	Buy	Ashit Desai
14-Apr-20	182	240	12m	Buy	Ashit Desai
08-Apr-20	179	240	12m	Buy	Ashit Desai
01-Feb-20	219	245	12m	Hold	Ashit Desai
25-Dec-19	239	274	12m	Hold	Ashit Desai
24-Oct-19	249	274	12m	Hold	Ashit Desai
20-Sep-19	238	267	12m	Hold	Ashit Desai
03-Aug-19	265	255	12m	Sell	Ashit Desai
13-May-19	289	272	12m	Sell	Ashit Desai
09-Apr-19	296	260	12m	Sell	Ashit Desai
12-Feb-19	275	260	12m	Sell	Ashit Desai

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Alpha Portfolio – Consumer Goods & Retail



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Sector

Consumer Goods & Retail

Analyst bio

Ashit Desai holds a PGDM and FRM (US GARP) with 13 years of research experience on the sell side. His team currently covers 24 stocks in the Indian Consumer and Retail space.

EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight based on Current NAV	Change vs last published EAP (bps)
Consumer Goods & Retail	10.17	10.17	0%	0	100.00	
Asian Paints	1.46	0.72	-51%	-74	7.07	0
Berger Paints	0.18	0.00	-100%	-18	0.00	0
Britannia Industries	0.42	0.45	9%	4	4.47	0
Colgate-Palmolive	0.19	0.20	6%	1	1.96	0
Dabur India	0.33	0.35	5%	2	3.45	0
Emami	0.11	0.10	-5%	-1	1.00	0
Godrej Consumer Products	0.35	0.33	-4%	-1	3.27	0
Hindustan Unilever	2.03	1.51	-26%	-53	14.81	0
ITC	2.02	2.04	1%	2	20.07	0
Marico	0.27	0.29	9%	2	2.85	0
Nestle India	0.67	0.36	-47%	-31	3.49	0
Pidilite Industries	0.35	0.00	-100%	-35	0.00	0
Radico Khaitan	0.00	0.24	NA	24	2.35	0
United Breweries	0.11	0.49	345%	38	4.79	0
United Spirits	0.00	0.34	NA	34	3.39	0
Varun Beverages	0.13	0.23	73%	10	2.23	0
ABFRL	0.08	0.15	98%	8	1.51	0
Jubilant FoodWorks	0.28	0.26	-9%	-3	2.52	0
Page Industries	0.22	0.50	122%	27	4.90	0
Titan Company	0.97	1.10	14%	13	10.81	0
TCNS Clothing	0.00	0.25	NA	25	2.43	0
Westlife Development	0.00	0.27	NA	27	2.64	0
Cash	0.00	0.00	NA	0	0.00	0

Source: Emkay Research

* Not under coverage: Equal Weight

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

Sector portfolio NAV

	Base					Latest
	1-Apr-19	14-Dec-20	14-Jun-21	13-Sep-21	12-Nov-21	13-Dec-21
EAP - Consumer Goods & Retail	100.0	120.2	130.0	146.6	150.9	146.8
BSE200 Neutral Weighted Portfolio (ETF)	100.0	115.8	124.3	139.6	136.5	133.8

*Performance measurement base date 1st April 2019

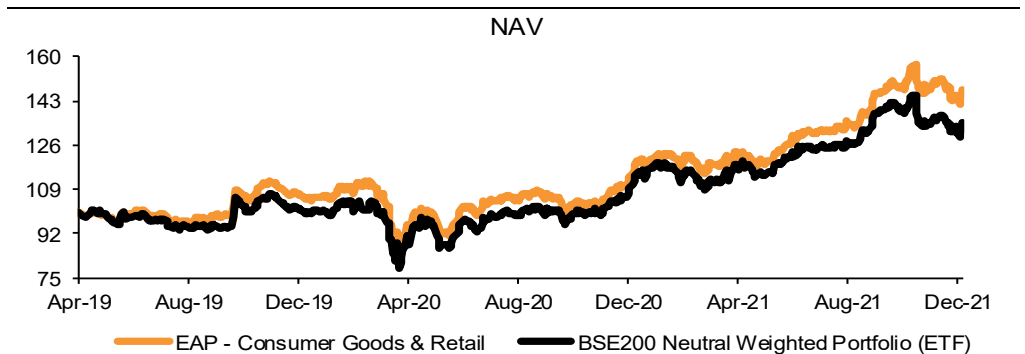
Source: Emkay Research

Price Performance (%)

	1m	3m	6m	12m
EAP - Consumer Goods & Retail	-2.7%	0.1%	12.9%	22.1%
BSE200 Neutral Weighted Portfolio (ETF)	-2.0%	-4.2%	7.6%	15.5%

Source: Emkay Research

NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

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Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

Completed Date: 15 Dec 2021 03:42:33 (SGT)

Dissemination Date: 15 Dec 2021 03:43:33 (SGT)

Sources for all charts and tables are Emkay Research unless otherwise specified.

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